

Audited Financial Statements



December 31, 2018

Quigley & Miron

Chrysalis Center
Audited Financial Statements
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December 31, 2018

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Independent Auditor's Report

Board of Directors
Chrysalis Center
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying statement of financial position of Chrysalis Center (Organization), a nonprofit organization, as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

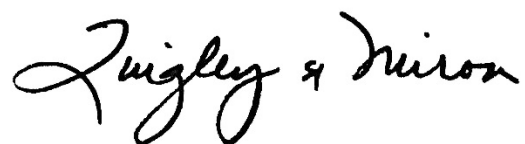
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chrysalis Center as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink, reading "Zwigley & Miron". The signature is written in a cursive, flowing style.

Los Angeles, California
September 16, 2019

Chrysalis Center
Statement of Financial Position
December 31, 2018
(with comparative totals for 2017)

	2018	Restated 2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,474,535	\$ 967,671
Grants receivable	182,634	322,819
Accounts receivable, net—Note 3	3,382,130	2,790,199
Right-of-use to in-kind facilities—Note 1	146,580	
Prepaid expenses	265,330	191,233
Total Current Assets	5,451,209	4,271,922
Non-Current Assets		
Right-of-use to in-kind facilities, non-current portion—Note 1	66,476	
Deposits	122,977	94,788
Property and equipment, net—Note 4	3,714,132	3,714,865
Total Non-Current Assets	3,903,585	3,809,653
Total Assets	\$ 9,354,794	\$ 8,081,575
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 276,741	\$ 114,829
Accrued expenses	626,178	485,685
Deferred revenue	5,000	52,349
Total Liabilities	907,919	652,863
Commitments and Contingencies—Note 6		
Net Assets		
Without donor restrictions		
Undesignated	6,112,481	5,657,525
Board-designated Reserve and Capital		
Improvement Fund—Note 7	1,318,651	1,318,651
Total Net Assets Without Donor Restrictions	7,431,132	6,976,176
With donor restrictions—Note 8	1,015,743	452,536
Total Net Assets	8,446,875	7,428,712
Total Liabilities and Net Assets	\$ 9,354,794	\$ 8,081,575

See notes to financial statements.

Chrysalis Center
Statement of Activities
Year Ended December 31, 2018
(with comparative totals for 2017)

	Without Donor Restrictions	With Donor Restrictions	2018 Total	Restated 2017 Total
Operating Activities				
Public Support				
Contributions	\$ 2,720,958	\$	\$ 2,720,958	\$ 1,636,586
Foundations and corporations	1,211,024	654,000	1,865,024	1,673,854
Governmental agencies	2,280,138	354,039	2,634,177	2,139,220
In-kind contributions	54,000	286,346	340,346	54,000
Special event revenue				
Gross revenue	2,007,620		2,007,620	1,797,086
Less cost of direct benefits to donors	(474,691)		(474,691)	(428,308)
Net Special Event Revenue	1,532,929		1,532,929	1,368,778
Total Public Support	7,799,049	1,294,385	9,093,434	6,872,438
Revenue				
Chrysalis Enterprises	15,738,202		15,738,202	11,673,674
Interest and other income	3,146		3,146	15,892
Total Revenue	15,741,348		15,741,348	11,689,566
Reclassifications				
Net assets released from restrictions	731,178	(731,178)		
Total Reclassifications	731,178	(731,178)		
Total Public Support, Revenue, and Net Assets After Reclassifications	24,271,575	563,207	24,834,782	18,562,004
Expenses				
Employment services				
Employment	5,642,798		5,642,798	4,705,355
Chrysalis Enterprises	15,404,506		15,404,506	12,165,290
Total Employment Services	21,047,304		21,047,304	16,870,645
Supporting services				
Management and general	1,564,993		1,564,993	486,355
Fundraising	1,204,322		1,204,322	1,007,058
Total Supporting Services	2,769,315		2,769,315	1,493,413
Total Expenses	23,816,619		23,816,619	18,364,058
Change in Net Assets	454,956	563,207	1,018,163	197,946
Net Assets at Beginning of Year	6,976,176	452,536	7,428,712	7,230,766
Net Assets at End of Year	\$ 7,431,132	\$ 1,015,743	\$ 8,446,875	\$ 7,428,712

See notes to financial statements.

Chrysalis Center
Statement of Functional Expenses
Year Ended December 31, 2018
(with comparative totals for 2017)

	Employment Services			Management and General	Fundraising	Special Event Expense	2018 Total	2017 Total
	Employment	Chrysalis Enterprises	Total					
Chrysalis Enterprises								
Insurance and registration	\$	\$ 333,075	\$ 333,075	\$	\$	\$	\$ 333,075	\$ 256,871
Outside services		189,828	189,828				189,828	80,838
Payroll and related— Transitional Program		10,595,398	10,595,398				10,595,398	7,862,964
Supplies and materials		397,168	397,168				397,168	343,647
Vehicle rental and maintenance		683,315	683,315				683,315	494,463
Waste management		318,795	318,795				318,795	182,738
Client services								
Clothing	24,190	76,390	100,580				100,580	99,548
Curriculum	17,134		17,134				17,134	26,357
Personal development	349,249		349,249				349,249	277,014
Transportation	84,698		84,698				84,698	121,164
Cost of direct benefits to donors						474,691	474,691	428,308
Depreciation	317,239	23,085	340,324	87,057	16,277		443,658	395,533
Facilities	775,141	206,432	981,573	381,689	48,288		1,411,550	1,027,926
Insurance	12,288	1,992	14,280	53,696	3,632		71,608	65,391
Office supplies	95,836	22,608	118,444	44,935	13,031		176,410	148,133
Other operating expenses	46,196	20,242	66,438	170,629	36,532		273,599	148,133
Payroll and related	3,777,888	2,434,893	6,212,781	485,503	1,009,471		7,707,755	6,286,764
Postage and mailings	17,754	2,761	20,515	11,149	41,175		72,839	65,428
Professional fees and outside services	6,398	7,824	14,222	276,194	5,295		295,711	235,687
Telephone	83,369	56,019	139,388	33,274	12,347		185,009	169,803
Travel and entertainment	35,418	34,681	70,099	20,867	18,274		109,240	75,656
Total Expenses by Function	5,642,798	15,404,506	21,047,304	1,564,993	1,204,322	474,691	24,291,310	18,792,366
Less expenses included with revenues on the statement of activities								
Cost of direct benefits to donors						(474,691)	(474,691)	(428,308)
Total Expenses Included in Expense Section of the Statement of Activities	\$ 5,642,798	\$ 15,404,506	\$ 21,047,304	\$ 1,564,993	\$ 1,204,322	\$	\$ 23,816,619	\$ 18,364,058
Percentage of Total Expenses	<u>24%</u>	<u>65%</u>	<u>89%</u>	<u>6%</u>	<u>5%</u>	<u>0%</u>	<u>100%</u>	<u>100%</u>

See notes to financial statements.

Chrysalis Center
Statement of Cash Flows
Year Ended December 31, 2018
(with comparative totals for 2017)

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 1,018,163	\$ 197,946
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	443,658	395,533
Gain on investments		(8,418)
Changes in operating assets and liabilities:		
Transfers to board-designated net assets		(104,021)
Grants receivable	140,185	227,789
Accounts receivable, net	(591,931)	(1,262,972)
Prepaid expenses	(74,097)	73,670
Right-of-use to in-kind facilities	(213,056)	
Deposits	(28,189)	(3,611)
Accounts payable	161,912	64,086
Accrued expenses	140,493	158,342
Deferred revenue	(47,349)	(9,189)
Net Cash Provided by (Used in) Operating Activities	949,789	(270,845)
Cash Flows from Investing Activities		
Purchases of investments		(179,820)
Proceeds from sale of investments		534,453
Purchases of property and equipment	(442,925)	(55,543)
Net Cash Provided by (Used in) Investing Activities	(442,925)	299,090
Cash Flows from Financing Activities		
Transfers to board-designated net assets		104,021
Net Cash Provided by Financing Activities		104,021
Increase in Cash and Cash Equivalents	506,864	132,266
Cash and Cash Equivalents at Beginning of Year	967,671	835,405
Cash and Cash Equivalents at End of Year	\$ 1,474,535	\$ 967,671
Supplementary Disclosures		
Cash paid during the year for:		
Income taxes	\$	\$
Income taxes on employee parking	\$ 33,242	\$
Interest on lines of credit	\$	\$

See notes to financial statements.

Chrysalis Center
Notes to Financial Statements
December 31, 2018
(with comparative totals for 2017)

Note 1—Nature of Activities and Significant Accounting Policies

Nature of Activities—The Chrysalis Center (Organization) is a California non-profit corporation, established in 1985, dedicated to creating a pathway to self-sufficiency for homeless and low income individuals by providing the resources and support needed to find and retain employment. The Organization operates centers in Downtown Los Angeles, the San Fernando Valley, Santa Monica, and Orange County. Program services offered by the Organization consist of the following:

The Core Employment Program offers a curriculum of job readiness classes, case management, resume and interview preparation, job application assistance, and supplemental supports, including mental health services, legal assistance, support groups, interview clothing, transportation assistance, food, computers, phones and voicemail, and a mailing address.

Chrysalis Enterprises is a division of the Organization that provides paid transitional jobs to those clients with significant barriers to employment through in-house social enterprises. Chrysalis Works is a professional street maintenance company, providing work experience in trash and recycling pick-up, landscaping, graffiti removal, hauling, and street sweeping. Chrysalis Staffing is a temporary staffing agency that allows clients to re-enter the job market through short-term, full-time, and part-time work assignments in administrative office support, property management, and janitorial services, among others. Chrysalis Roads is a litter abatement, landscaping, and freeway maintenance business offering transitional employment to individuals re-entering from the criminal justice system.

Financial Statement Presentation—In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. ASU No. 2016-14 has been applied retrospectively to all periods presented and a summary of the net asset reclassifications resulting from the adoption of the ASU follows:

Chrysalis Center
Notes to Financial Statements—Continued

Note 1—Nature of Activities and Significant Accounting Policies—Continued

Net Asset Classifications	ASU No. 2016-14 Classification				
	Without Donor Restrictions			With Donor Restrictions	Total Net Assets
	Undesignated	Board-Designated	Total		
Net Assets at December 31, 2017, as Previously Presented					
Unrestricted					
Undesignated	\$ 3,913,950	\$	\$ 3,913,950	\$	\$ 3,913,950
Board-designated		1,318,651	1,318,651		1,318,651
Temporarily restricted				2,196,111	2,196,111
Net Assets at December 31, 2017, as Previously Presented	3,913,950	1,318,651	5,232,601	2,196,111	7,428,712
Reclassifications to implement ASU No. 2016-14					
Capital gifts temporarily restricted for property	1,743,575		1,743,575	(1,743,575)	
Net Assets at December 31, 2017, as Restated	\$ 5,657,525	\$ 1,318,651	\$ 6,976,176	\$ 452,536	\$ 7,428,712

The adoption of ASU No. 2016-14 by the Organization eliminated its ability, absent any explicit donor stipulations, to ratably release capital gifts temporarily restricted for property over the estimated useful life of the property. As a result, capital gifts temporarily restricted for property in the amount of \$1,743,575 were retrospectively reclassified from net assets with donor restrictions to net assets without donor restrictions for the year ended December 31, 2017.

The financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Organization recognizes public and private grants as revenue in the period awarded. Corporate contributions and donations from individuals are recognized when received. Chrysalis Enterprises' revenue is recognized when earned. Contributions and net assets are classified based on the existence or absence of donor-imposed restrictions. As such, the net assets of the Organization and changes therein are classified and reported as follows:

Net assets without donor restrictions—Net assets that are not subject to donor-imposed stipulations and that may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions—Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; such restrictions that may or will be met either by actions of the Organization and/or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity. Generally, the donors of such assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

Chrysalis Center
Notes to Financial Statements—Continued

Note 1—Nature of Activities and Significant Accounting Policies—Continued

Donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restriction. When a time restriction expires or a purpose restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions.

Measure of Operations—The statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Organization’s ongoing employment services and earned interest. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature; the Organization did not engage in any reportable nonoperating activities during the years ended December 31, 2018 and 2017.

Income Taxes—Chrysalis Center is a nonprofit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (Code). Accordingly, no provision for income taxes is included in the financial statements. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code.

Under Section 512(a)(7) of The Tax Cuts and Jobs Act of 2017 (TCJA), effective in 2018, expenses paid or incurred by a tax-exempt entity to provide employee parking is considered unrelated business income (UBI) subject to tax for the entity. As a consequence of TCJA, the Organization paid \$33,242 in UBI tax related to employee parking during 2018. The tax payments are reflected in “other operating expenses” in the statement of functional expenses. There was no UBI for the year ended December 31, 2017.

Accounting standards require an organization to evaluate its tax positions and provide for a liability for any positions that would not be considered “*more likely than not*” to be upheld under a tax authority examination. Management has evaluated its tax positions and concluded that a provision for a tax liability was not necessary at December 31, 2018 and 2017. Generally, the Organization’s information returns remain open for examination for a period of three (federal) or four (state of California) years from the date of filing.

Government Grants and Contracts—Revenues from government grants and contracts are reported as increases in unrestricted net assets as allowable expenditures under such agreements are incurred. The amounts expended in excess of reimbursements are reported as grants receivable. Amounts received in excess of amounts expended are recorded as deferred revenue.

Cash and Cash Equivalents—The Organization considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments—Investments are stated at fair value and held by an independent asset custodian. The asset allocation is managed by an investment committee in accordance with the Organization’s investment policy. All investment related activity is unrestricted in nature. The Organization had no investments at December 31, 2018 and 2017, respectively.

Chrysalis Center
Notes to Financial Statements—Continued

Note 1—Nature of Activities and Significant Accounting Policies—Continued

Grants Receivable—Grants receivable that are expected to be collected within one year are recorded at net realizable value upon receipt of the award. Grants receivable that are expected to be collected in future years are recorded at fair value at the time of the award. The Organization measures fair value of grants receivable in more than one year as the present value of expected future cash flows. Amortization of the associated discount is included in grants revenue. Management provides for probable uncollectible amounts based on its assessment of recent collection history and current donor relationships. Conditional grants are not included as support until the conditions on which they depend are substantially met.

Accounts Receivable—Accounts receivable is stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to expense and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Property and Equipment—Property and equipment are stated at cost when purchased, or at estimated fair market value at the date of donation. Depreciation is provided using the straight-line method over the estimated useful lives of the related asset, as follows:

Furniture	5 years
Office equipment	7 years
Computer equipment	3 years
Vehicles	5 years
Leasehold improvements	5 years or term of lease (<i>whichever is longer</i>)
Buildings and improvements	40 years

It is the Organization's policy to expense items under \$5,000.

Concentrations of Credit Risk—The Organization maintains cash balances at a high quality financial institution, American Business Bank, where accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. In the normal course of business, such cash balances are in excess of the FDIC insurance limits, but management deems the risk of loss due to these concentrations to be minimal. Grants receivable are principally with local foundations and government agencies. Accounts receivable are principally with local corporations, business improvement districts and government agencies. Collection losses related to receivables have historically been immaterial, but management has concluded that, based on its review of balances outstanding, a valuation allowance from selected receivable balances is appropriate.

Chrysalis Center
Notes to Financial Statements—Continued

Note 1—Nature of Activities and Significant Accounting Policies—Continued

Functionalized Expenses—The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include facilities and depreciation which are allocated on a square footage basis, as well as payroll and related expenses (consisting of salaries and wages, employee benefits, and payroll taxes), professional fees and outside services, office supplies, travel and entertainment, insurance, postage and mailings, telephone, and other operating expenses, which are allocated on the basis of estimates of time and effort.

In-Kind Contributions—The Organization records various types of in-kind contributions, including services and tangible assets. Donated services are recorded at fair value at the date of donation only if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Donations of tangible assets are recognized at fair value when received.

In-kind donations of \$340,346 and \$54,000 for the years ended December 31, 2018 and 2017, respectively, have been recorded in the in-kind contributions caption of the statement of activities at their fair value and included in the statement of financial position and statement of functional expenses as reflected in the following table:

	<u>2018</u>	<u>2017</u>
Statement of Financial Position		
Right-of-use to in-kind facilities, net	\$ 213,056	\$
Statement of Functional Expenses		
Facilities	73,290	
Client services transportation	54,000	54,000
Totals	\$ 340,346	\$ 54,000

The facility space provided to the Organization by the City of Anaheim was negotiated in 2018 for a period of 24 months, beginning July 1, 2018 and expiring June 30, 2020, and requires the nominal payment of \$1 for each of the two 12-month periods. The Organization recorded this in-kind donation as a “right-of-use to in-kind facilities” asset on the statement of financial position, donor-restricted for use in employment programs.

This right-of-use to in-kind facilities at December 31, 2018 consists of the following:

Right-of-use to in-kind facilities	
Less than one year	\$ 146,580
One year to five years	73,290
Gross Right-of-Use to In-Kind Facilities	219,870
Less 5% discount to present value	(6,814)
Right-of-Use to In-Kind Facilities, Net	\$ 213,056

Chrysalis Center
Notes to Financial Statements—Continued

Note 1—Nature of Activities and Significant Accounting Policies—Continued

Donated services are not reflected in the accompanying financial statements as they do not meet the criteria for recognition under generally accepted accounting principles. In order to expand the reach of its programs, the Organization utilizes the services of a substantial number of volunteers who have donated a significant number of hours to the Organization's program services, management, and fundraising activities. During the years ended December 31, 2018 and 2017, the Organization's network of volunteers donated 11,313 and 10,147 service hours, respectively, to the Organization. The Organization values these donated services at \$338,835 and \$295,176, respectively, based on a respective estimated rate of volunteer time of \$29.95 and \$29.09 per hour, as determined specifically for California as recently as 2018 by Independent Sector, a leading resource and research organization for the nonprofit industry.

Use of Estimates—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications—Certain 2017 amounts have been reclassified to conform with the 2018 financial statement presentation.

Note 2—Availability and Liquidity

The following represents the Organization's financial assets available at December 31, 2018 and 2017:

	2018	2017
Financial assets at end of year		
Cash and cash equivalents	\$ 1,474,535	\$ 967,671
Grants receivable	182,634	322,819
Accounts receivable	3,382,130	2,790,199
Total Financial Assets	5,039,299	4,080,689
Less amounts not available to be used within one year:		
Net assets with donor restrictions	1,015,743	452,536
Less net assets with purpose restrictions to be met in less than a year	(897,998)	(276,418)
Board-designated reserve fund	1,318,651	1,318,651
Total Unavailable Financial Assets	1,436,396	1,494,769
Current Availability of Financial Assets	\$ 3,602,903	\$ 2,585,920

Chrysalis Center
Notes to Financial Statements—Continued

Note 2—Availability and Liquidity—Continued

The Organization's goal is generally to maintain financial assets to meet at least 90 days of general operating expenses (approximately \$3 million, not including Chrysalis Enterprises labor and related expenses). The Organization has a \$2 million line of credit available to meet cash flow needs. The board-designated reserve fund is intended by board of director policy to be used for future major capital investments and to support programs that have been impacted by unanticipated funding reductions.

Note 3—Accounts Receivable, Net

Net accounts receivable consists of the following at December 31, 2018 and 2017:

	2018	2017
Chrysalis Enterprises		
Chrysalis Works	\$ 1,599,461	\$ 1,132,341
Chrysalis Roads	958,725	715,896
Chrysalis Staffing	222,287	282,517
Non-Chrysalis Enterprises	611,657	669,445
	<u>3,392,130</u>	<u>2,800,199</u>
Less allowance for uncollectible accounts	(10,000)	(10,000)
Net	<u>\$ 3,382,130</u>	<u>\$ 2,790,199</u>

Chrysalis Works receivables are primarily with Business Improvement Districts (BIDs) in Los Angeles County. Chrysalis Roads receivables are with the City of Los Angeles and Butte County Office of Education (BCOE). Chrysalis Staffing receivables are with a broad range of private sector companies in Southern California. Non-Chrysalis Enterprises receivables are primarily with government entities.

Note 4—Property and Equipment, Net

Net property and equipment consist of the following at December 31, 2018 and 2017:

	2018	2017
Land	\$ 1,300,000	\$ 1,300,000
Building and improvements	652,878	652,878
Leasehold improvements	3,816,540	3,444,955
Furniture and equipment	170,309	152,917
Vehicles	111,201	57,253
	<u>6,050,928</u>	<u>5,608,003</u>
Less accumulated depreciation	(2,336,796)	(1,893,138)
Net	<u>\$ 3,714,132</u>	<u>\$ 3,714,865</u>

Chrysalis Center
Notes to Financial Statements—Continued

Note 5—Lines of Credit

In October 2013, the Organization negotiated a bank line of credit, providing a maximum borrowing amount of \$1,000,000, secured by the Organization's real and personal property. The line of credit bore interest at 3.25% as of the date of negotiation and was indexed at the bank's reference rate. Interest was payable monthly and the loan matured on October 1, 2018. Additionally, in November 2017, the Organization negotiated a second bank line of credit at American Business Bank that provided a maximum of \$600,000, secured by the Organization's real and personal property. The borrowing bore an initial interest rate of 3.5%, payable monthly, as of the date of negotiation, and was variably indexed at the bank's reference rate. The loan matured on December 15, 2018.

In September 2018, to replace these two maturing lines of credit, the Organization negotiated a new single bank line of credit, providing a maximum borrowing amount \$2,000,000, secured by the Organization's real and personal property. The line of credit bears interest at 4.50% as of the date of negotiation and is indexed at the bank's reference rate. Interest is payable monthly and the loan matures on October 1, 2023. As of December 31, 2018, the Organization had not drawn any funds on any of the lines since the loans' inception and paid no interest during the years ended December 31, 2018, and 2017.

Note 6—Commitments and Contingencies

In addition to the facility space provided for one dollar per year to the Organization by the City of Anaheim (see Note 1), the Organization rents office space in downtown Los Angeles and the San Fernando Valley under non-cancelable operating leases. Additionally, the Organization is a party to 45 non-cancelable operating equipment lease agreements. Future minimum rental payments due on all operating leases with remaining terms of one year or more, by year, are as follows:

<u>Year Ending December 31,</u>	
2019	\$ 898,220
2020	661,701
2021	563,831
2022	406,807
2023	175,494
Thereafter	<u>211,175</u>
Total	<u>\$ 2,917,228</u>

Rental expense related to the above leases for the years ended December 31, 2018 and 2017 was approximately \$800,000 and \$600,000, respectively.

Grants require the fulfillment of certain conditions as set forth in the instrument of the grant. Failure to fulfill the conditions could result in the return of the funds to the grantors. Although that is a possibility, the Board deems the contingency remote since, by accepting the gift and its terms, it is acknowledging the requirements of the grantor at the time of receipt.

During 2018, an employment-related claim was asserted against the Organization. As of August 31, 2019, the Organization is reviewing all legal options regarding this claim including settlement. The resolution of this legal matter is expected in 2021. In management's opinion, the legal proceedings' ultimate outcome will not have a material effect on the Organization's financial position.

Chrysalis Center
Notes to Financial Statements—Continued

Note 7—Board-Designated Net Assets

Board-designated net assets are voluntary, board-approved segregations of net assets without donor restrictions for specific purposes, projects or investments.

The Reserve and Capital Improvement Fund (Fund) is to be used for major capital investments or other extraordinary purposes, such as supporting programs that have been impacted by unanticipated funding reductions. It may also be tapped as a short-term line of credit to address temporary, unanticipated cash flow needs. The Board of Directors may decide, at its discretion, to designate additional funds to the Fund based on the Organization's surplus cash position and projected cash needs.

During the year ended December 31, 2018, no amounts were designated to or released from the Fund. During the year ended December 31, 2017, the Board approved designations to the Fund of \$104,021. At December 31, 2018 and 2017, the total of the Fund was \$1,318,651.

Note 8—Net Assets With Donor Restrictions

Net assets with donor restrictions at December 31, 2018 and 2017 are restricted for the following purposes or periods:

	<u>2018</u>	<u>2017</u>
Subject to expenditure for specified purpose:		
Employment programs	\$ 864,326	\$ 129,717
Promises to give, the proceeds from which		
have been restricted by donors for:		
Employment programs	<u>151,417</u>	<u>322,819</u>
Totals	<u>\$ 1,015,743</u>	<u>\$ 452,536</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors.

	<u>2018</u>	<u>2017</u>
Satisfaction of purpose restrictions		
Employment programs	<u>\$ 731,178</u>	<u>\$ 656,677</u>
	<u>\$ 731,178</u>	<u>\$ 656,677</u>

Note 9—Recent Accounting Pronouncements

Leases—In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statement of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02 is effective for nonprofit organizations with fiscal years beginning after December 15, 2019, with early adoption permitted. The Organization is currently evaluating the impact that the adoption of ASU No. 2016-02 will have on its financial statements.

Revenue Recognition—In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which supersedes most of the current revenue recognition requirements. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. ASU No. 2014-09 is effective for fiscal years beginning after December 15, 2018; early adoption is permitted for fiscal years beginning after December 15, 2016. The guidance permits the use of either a retrospective or cumulative effect transition method. The Organization is currently evaluating the impact that the adoption of ASU No. 2014-09 will have on its financial statements.

Note 10—Subsequent Events

Management evaluated all activities of Chrysalis Center through September 16, 2019, which is the date the financial statements were available to be issued, and concluded that no other material subsequent events have occurred that would require adjustment to the financial statements or disclosure in the notes to the financial statements.